

Prepared Statement of John W. Cox

**Chief Financial Officer
U.S. Department of Housing and Urban Development**



**Hearing before the
Subcommittee on Federal Financial Management, Government
Information, Federal Services and International Security**

**Committee on Homeland Security and Governmental Affairs
United States Senate**

March 29, 2007

Chairman Carper, Senator Coburn and distinguished members of the Committee, my name is John Cox, the Chief Financial Officer for HUD. Thank you for inviting me to appear before this Committee today to speak about the results of HUD's efforts to reduce improper payments.

The Department has aggressively complied with the Improper Payments Information Act of 2002, and was the first agency to achieve green status on the President's Management Agenda initiative for Eliminating Improper Payments. I would like to go over a few of the Department's accomplishments since my office last testified before this committee on this topic in September 2005:

- We are in the process of updating our fourth annual improper payment risk assessment. Our most recent completed annual improper payment risk assessment covered the \$58.8 billion in payments made by the Department in Fiscal Year 2005, and no new high risk program activities were identified. Over the past three years, the results of HUD's annual risk assessments called for the measurement of improper payment levels in eleven major program areas with the risk potential to exceed the \$10 million high-risk program threshold. Those eleven programs constitute about 65 percent of the Department's total annual payment activity. Five of the eleven programs measured exceeded the \$10 million improper payment threshold to require corrective action planning and annual measurement, reporting, and follow-up efforts to reduce improper payment levels.
- We completed and verified corrective actions to reduce improper payments to an acceptable level in two of the five programs originally determined to be at-risk of significant improper payment levels – payments under the Single Family Acquired Asset Management System and the Public Housing Capital Fund.
- We exceeded our internal goals for reducing improper payment levels for HUD's three remaining at-risk program areas -- the Public Housing, Tenant-Based Assistance and Project-Based Assistance Programs – which are collectively referred to as HUD's rental housing assistance programs. In 2000, HUD established a baseline estimate of \$3.2 billion in gross annual improper rental assistance payments, inclusive of \$2 billion in net annual overpayments, attributed to subsidy determination errors and underreporting of tenant income upon which the subsidies are based. HUD's initial goal was to reduce that \$2 billion net annual overpayment estimate 50 percent by the end of FY 2005. As shown in the following table, HUD exceeded that goal by reducing net annual overpayments by 69 percent.

**Reductions in Improper Rental Housing Assistance Payments
Due to Subsidy Determination and Income Reporting Errors**

Period	Over Payments*	Under Payments	Net Over- Payments	Gross Improper Payments
2000	\$2,594	\$622	\$1,972	\$3,216
2005	\$943	\$341	\$602	\$1,284
\$ Reduction	\$1,651	\$281	\$1,370	\$1,932
% Reduction	64%	45%	69%	60%

* - Amounts shown in millions

This reduction – and the underlying internal control improvements -- was one of the key reasons HUD’s rental housing assistance program area was removed from the GAO high-risk list in January 2007.

The reductions in housing subsidy determination errors resulted from HUD efforts to work with its housing industry partners at public housing agencies and multifamily housing projects through enhanced program guidance, training, oversight, and enforcement. The reduction of erroneous payments due to tenant under-reporting of income resulted from: improved income verification efforts by housing program administrators; increased voluntary compliance by tenants due to promotion of the issue; HUD’s initiation of improved computer matching processes for upfront verification of tenant income; and an improved methodology for reviewing income discrepancies identified through computer matching to better determine actual cases of under-reported income impacting subsidy levels.

While the total gross level of improper payments in the rental housing assistance programs remained relatively constant between FY 2004 and FY 2005, the percentage of total payments that were improper dropped from 5.6 percent to 5.4 percent, exceeding HUD’s goal of 5.6 percent. HUD paid over \$27.2 billion in rental housing assistance in FY 2005, representing over 46 percent of all HUD payments.

In FY 2006, HUD implemented its new Enterprise Income Verification System for use by Public Housing Agency program administrators in conducting improved verifications of tenant income during the annual recertification process. I want to thank our agency partners at the Department of Health and Human Services and the Social Security Administration for their assistance. The new web-based, secure verification system will be expanded to the Multifamily Housing Project-Based Assistance Programs during the current fiscal year. This improved computer matching capability for verifying income has the potential to eliminate the majority of the remaining estimated improper rental housing assistance payments. This system is not only faster and more efficient, but just as importantly, it affords more privacy to tenants by eliminating the paper income verification letter that was formerly mailed to the assisted tenant’s employer for completion and returned to the Public Housing Agency or other HUD program administrator for income verification. HUD’s long-range strategic goal is to reduce improper rental assistance payments to less than 2.5 percent of total payments by the end

of FY 2008. That would be quite an accomplishment, given the high degree of complexity of the housing subsidy determinations and the decentralized nature of the program administration.

In conclusion, Mr. Chairman, I want to thank the employees of HUD, and our agency and industry partners, for working together to tackle the tough issue of improper rental housing assistance payments. These efforts not only reduced improper payments, allowing more funds to be available for HUD's mission, but we proved that working together we could correct long-standing issues. Utilizing enhanced technology and continued partnership with agency and industry partners will allow the Department to meet its goal of further reducing improper payments.

I am pleased to answer any questions you may have.